



**STATE DEPARTMENTS'  
TRAVEL REGULATIONS, POLICIES, AND PROCEDURES**

**From The Office Of State Auditor  
Claire McCaskill**

*State travel policies and regulations did not prevent excessive airfare costs, inconsistent meal reimbursement rates and questionable meal reimbursement practices.*

**Report No. 2001-95  
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[www.auditor.state.mo.us](http://www.auditor.state.mo.us)**

**PERFORMANCE AUDIT**



Office of  
Missouri State Auditor  
Claire McCaskill

September 2001

[www.auditor.state.mo.us](http://www.auditor.state.mo.us)

**About \$3 million could be saved with changes in state business air travel and meal reimbursements**

This audit examined how well state travel regulations control employee meal and airfare costs and found changes could reap substantial savings. Auditors determined the following results after reviewing travel and expense data for 16 executive branch departments.

**Contracts with airlines are key to cutting costs in half**

Missouri employees pay more than triple what Georgia employees pay for the same flight between Atlanta to St. Louis. This cost gap exists because Georgia officials negotiated an airfare contract with Trans World Airlines (headquartered in St. Louis). Missouri could cut airfare expenses in half, saving about \$1.5 million, by negotiating discounted airfare contracts as other states and federal entities have done for years. In addition, contracts could eliminate the need for non-refundable tickets and travel on Saturdays for cheaper fares. (See page 2)

**State loses when employees keep frequent flier mile for personal use**

State employees can redeem for personal use the frequent flier miles earned while traveling for state purposes. Three of the eight states contiguous to Missouri and the federal government declare frequent flier miles earned on business as government property. If Missouri followed suit, state officials could use these miles to reduce future travel costs. (See page 5)

**Some employees can claim up to \$72 a day for food**

Each department and some divisions within departments can set their own price limits to reimburse employees for food expenses. As a result, several regulations exist with some departments limiting employees to \$14 a day for meals, while others can claim up to \$72 a day. In addition, auditors found that five departments pay for the same expensive meal guide subscription (up to \$950 annually) to help set price limits for particular cities. (See pages 7 and 9)

**Lunches reimbursed without requiring overnight travel**

State officials could save an estimated \$1.8 million by eliminating reimbursement for noontime meals when employees are not traveling overnight. This practice is not common in seven of the eight states surrounding Missouri or federal agencies. But auditors found every department reimbursed for lunches even if an employee completed travel within a work day. Two of these departments allow lunch reimbursement even if employees are out of their office only two hours. (See page 13)

YELLOW SHEET

# STATE DEPARTMENTS' TRAVEL REGULATIONS, POLICIES, AND PROCEDURES

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**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

Honorable Bob Holden, Governor  
and  
Members of the General Assembly  
and  
Michael Hartmann, Commissioner  
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The State Auditor's Office audited the Missouri State Travel Regulations at selected state agencies. The purpose of the audit was to determine if state travel regulations (1) provided cost-effective control over the purchase and use of commercial airline tickets, and (2) were consistently implemented by the executive branch departments to control the costs of employees' state business travel.

Audit tests disclosed (a) the state could potentially save \$1 million or more annually by contracting with airlines to obtain discounted airfares for state business travel, (b) the decentralization of state travel policies has resulted in inadequate and excessive meal allowance rates, and administrative inefficiencies, and (c) state agencies are reimbursing employees for meals that according to federal regulations are personal expenses and not business expenses and therefore should be reported as taxable income.

The audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such tests of the procedures and records as were considered appropriate under the circumstances.

Claire McCaskill  
State Auditor

July 13, 2001 (fieldwork completion)

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## RESULTS AND RECOMMENDATIONS

### 1. State Could Realize Substantial Savings Annually by Negotiating Air Fares with Commercial Airlines and Declaring Frequent Flier Miles as State Property

Missouri could have potentially saved over \$1 million in airfares during fiscal year 2000 if the state had negotiated contracts with commercial airlines. Since May 1993, Missouri's policy has encouraged state employees to use Trans World Airlines (TWA) when flying on state business, and TWA has reciprocated by giving state employees a 10 to 15 percent discount on airfares.<sup>1</sup> Other states and the federal government have negotiated contracts with airlines, including TWA, which allow their employees to fly at substantially less cost than Missouri state employees. Audit tests showed contracts with airlines can also provide other significant benefits, such as eliminating the need for state employees to purchase non-refundable and non-transferable tickets in order to get lower airfares. The state also lacks a policy on ownership of frequent flier miles state employees earn while flying on state business, which allows state employees to retain them for personal use.

#### **Negotiated contracts with airlines can provide substantial savings and other benefits**

During fiscal year 2000, the state paid an estimated \$2.9 million for air travel to conduct official business. Based on discounts other states and the federal government have realized through contract fares, Missouri could have potentially saved from 25 percent to over 50 percent on airline fares, or between \$745,000 and \$1.5 million. Negotiating contracts with airlines to obtain discounted airfares has been a long-standing practice used by other states and the federal government to reduce their travel costs. These contracts are typically negotiated annually and guarantee airfares that are less than standard coach fares between sets of paired cities such as between St. Louis and Washington, D.C. Several states, including Arkansas, Georgia, Illinois, and Iowa, and the federal government have contracts with commercial airlines that allow their employees to fly at substantially less cost than Missouri state employees. For example, the contract airfare with TWA for Georgia state employees for a one-way trip between Atlanta and St. Louis costs \$133. A Missouri state employee would pay \$420 for the same flight even with the 10 to 15 percent discount (a difference of \$287). Table 1.1 shows airfares under federal airline contracts compared to fares that could be paid by Missouri employees.

Savings of over \$1 million are possible

**Table 1.1: Maximum Potential Airline Contract Savings**

Flight			Federal	Missouri	Maximum Potential Savings
Kansas City	to	Washington, D.C.	\$254	\$571	56%
St. Louis	to	New York	\$290	\$613	53%
St. Louis	to	Washington, D.C.	\$283	\$436	35%
Kansas City	to	New York	\$275	\$369	25%

Source: Federal government contract schedules and commercial airline web sites.

<sup>1</sup> State Executive Order 93-07, signed May 10, 1993, directed each department to develop procedures for encouraging its employees to use TWA for state business air travel.

The above federal fares are unrestricted fares that do not require advanced reservations. The Missouri fares were unrestricted fares available 2 days before planned departure. In addition to the difference in the above prices, there was a substantial difference in the amount of time required to complete the flights. For example, the federal fare between St. Louis and New York is a 2½-hour non-stop flight. However, the Missouri fare between St. Louis and New York is a 10-hour flight that involved stops in Dallas and Detroit.

State employees can obtain lower fares than shown in table 1.1 by making advanced reservations. However, it is difficult to plan many business trips with adequate advanced notice to obtain these lower fares or with certainty that the plans will not change. These lower fares also involve restrictions such as being non-refundable tickets and \$100 fees for changing the flight schedule.

### **Negotiated contracts can provide additional tangible and intangible benefits**

Airline contracts can eliminate the following practices:

- Purchasing non-refundable tickets.
- Traveling on Saturday in order to obtain cheaper fares.
- Abusing ticketing practices.

For example, to obtain discounted airfares, Missouri state employees have purchased tickets up to 3 months in advance of the planned departure date. These advance purchased tickets are generally non-refundable and non-transferable. Therefore, if a state employee is unable to make a trip for which he/she has already purchased a ticket, the state is unable to obtain a refund for the ticket or to allow another employee to use the ticket. If the employee makes another trip in the future, the employee could exchange the old ticket for a new ticket less an exchange fee of about \$100 and the difference in the two ticket prices. By obtaining contracts with airlines, non-refundable and non-transferable tickets would cease to be a problem because tickets purchased through contracts are refundable with no exchange fee. In addition, the ticket can be transferred to another employee if the first employee cannot make the trip.

Employee travel on Saturdays can be minimized or eliminated. Many airlines offer low-cost excursion fares, which require passengers to travel on Saturdays.<sup>3</sup> The cost difference between excursion tickets and tickets purchased without a Saturday-night stay can be several hundred dollars. State employees could justify the cost of traveling on a Saturday and reimbursement for an extra day's lodging and meals because these costs were less than the ticket prices for flights without a Saturday stay. However, this requires employees to be away from their homes an additional day in order to save the state money. With contract fares, there is no Saturday night stay requirement. The ticket purchased through a contract airline would cost the state the same amount no matter when the employee used it. Additionally, the contract ticket cost may be no

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<sup>2</sup> An example of a situation where a state employee would purchase an airline ticket 3 months in advance is to attend a conference and the date of the conference was known several months in advance.

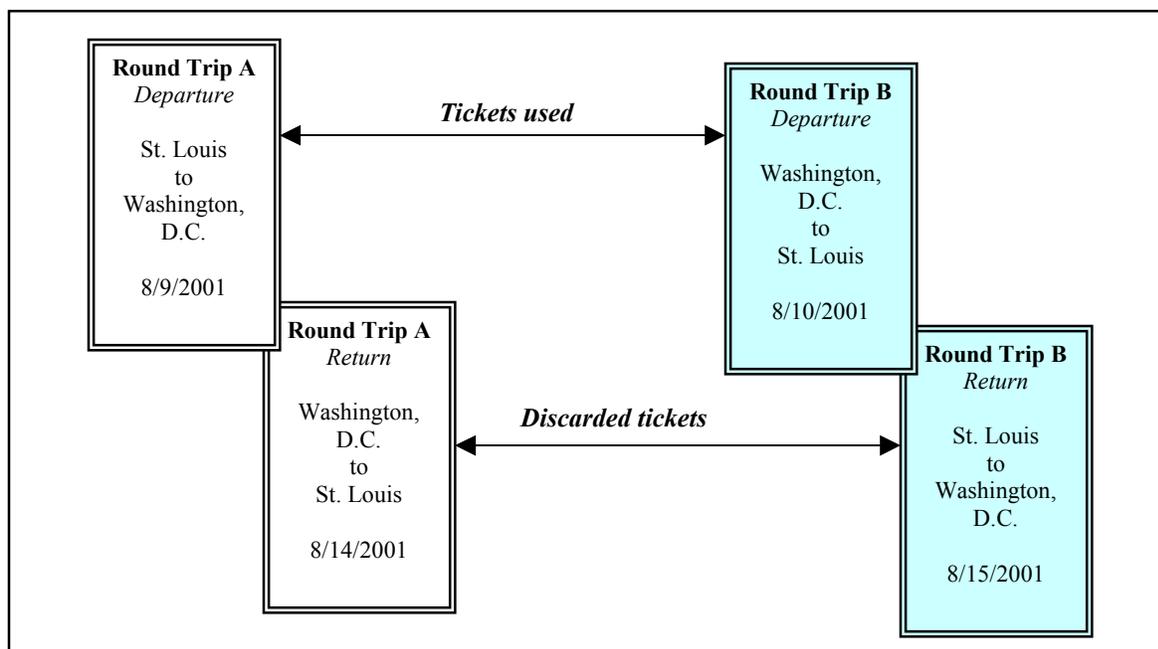
<sup>3</sup> After the audit period, some airlines have discontinued the Saturday travel requirement.

more than excursion airfares, and the state would also save the additional cost of meals and lodging for employees to travel on Saturdays.

### Negotiating contract airfares could also eliminate abusive ticketing practices

State employees have been involved in the practice known as back-to-back ticketing in order to avoid traveling on Saturdays. In back-to-back ticketing, an individual purchases two sets of round-trip tickets, which require Saturday night stays. These two round-trip tickets will often be cheaper than one round-trip ticket that does not require a Saturday night stay. As shown in the illustration 1.2, the individual will use the departure ticket for round-trip A and the departure ticket for round-trip B to enable the person to travel without having to stay over on a Saturday. The second half of the two sets of tickets is then discarded.

**Illustration 1.2: Back-to-Back Ticketing**



Source: Prepared by auditors.

Commercial airlines consider back-to-back ticketing as prohibited by the existing airline tariff rules, and if discovered, will often charge an individual or travel agency a penalty for booking these tickets. A travel agency official stated the agency was charged \$5,500 for booking back-to-back tickets for a state department. The official stated the state employee had called to book one set of tickets with one travel agent and then called back at a later date and spoke with a different agent to book the second set of tickets. This state employee did this on several occasions and the airline was able to track the activities through the state employee's frequent flyer miles. The travel agency contacted the responsible state department to obtain reimbursement for the penalty and the department refused to pay. The travel agency was ultimately responsible for paying the charge.

### **Using the Internet to purchase tickets is not always cost-effective**

Although substantial discounts can be realized by purchasing airline tickets through the Internet, it does pose several disadvantages as follows:

Internet booking can be time consuming

- Tickets obtained via the Internet usually involve advanced purchases, are usually non-refundable, and non-transferable.
- Searching the Internet for low airfares can be a time-consuming process, especially for state employees who do not travel by air on a regular basis.
- Ticket information shown on Internet purchases can be confusing. According to a state travel agent, several state employees who purchased tickets via the Internet thought the confirmation numbers shown on the screen represented actual ticketing for a flight. However, when the employees arrived at the air terminal they found they had not actually purchased tickets and had to purchase tickets at substantially higher prices than the prices shown on the Internet purchases.

### **Official policy related to frequent flier miles is needed**

State employees using tickets purchased by state funds are free to redeem frequent flyer miles for their own personal use. The state does not have a policy on the ownership of frequent flier miles, and under current airline regulations the state cannot capture these miles for state use. Three of the eight contiguous states to Missouri and the federal government have policies declaring frequent flier miles earned while flying with tickets purchased by state/federal funds are property of the government. These policies are based on the premise that any benefits derived from the use of these tickets should go to the purchaser of the tickets (the government) and not the user (government employee).

Frequent flier miles can be used for personal trips

Five of the eight contiguous states have not established frequent flier mile policies because their officials said such policies are basically impossible to enforce. States would have to rely on their employees to enroll in frequent flier programs and report their frequent flier miles. While this may be true, polices will help avoid abuses in the use of the frequent flier benefit.

### **Conclusions**

Missouri could potentially save \$1 million or more annually in travel costs by negotiating contracts with commercial airlines to obtain discounted airfares between paired cities such as St. Louis and Washington, D.C. Contracts with airlines would also eliminate the need for employees to buy airline tickets that are non-refundable, to travel on Saturdays and to spend job time searching the Internet for low airfares. Other states and federal government agencies reduce travel costs by using frequent flier miles earned by their employees to reduce the cost of future government business trips. The absence of a state frequent flier policy allows state employees to keep frequent flier miles earned while using tickets purchased with state funds, and therefore the state cannot use these miles to reduce future travel costs. However, if the state entered into

contracts with the airlines as suggested in this report, the frequent flier miles would become property of the state instead of the individual fliers.

### **Recommendations:**

We recommend the Commissioner, Office of Administration:

- 1.1 Analyze air travel by Missouri state employees to identify the cities most frequently visited.
- 1.2 Negotiate with commercial airlines to obtain reduced airfares between paired cities identified in the analysis.
- 1.3 Amend state travel regulations requiring employees to use contract airlines unless job circumstances, such as work schedules, make using non-contract airlines necessary.

### **Office of Administration Comments**

*The Office of Administration will convene an interagency work group to review current regulations and practices. Based on the recommendations of the work group, the Commissioner will issue appropriate policies and regulations regarding state travel.*

*The work group is currently being formed; all 16 state executive departments have been asked to designate someone to serve on the group. The group will begin its task by reviewing the audit findings and current agency travel practices.*

## **2. Decentralization of the State Travel Regulations Has Resulted in Inequitable Travel Policies and Lack of Control over Travel Expenditures**

State departments and their divisions<sup>4</sup> are issuing numerous travel regulations that do not consistently reimburse state employees for meals. The state travel regulation issued by the Office of Administration only states a meal expense shall be in reasonable relationship to the average costs of the cities where the expense is incurred. However, it does not provide an appropriate definition for this amount. The Office of Administration delegated the authority for each department to set their own meal limits in order to give the departments flexibility in controlling their travel budgets. Allowing each department and their divisions to issue their own travel regulations has also resulted in inequity among state employees and duplication of effort in reviewing travel expense reports.

### **The lack of specific guidance has contributed to inequitable meal allowances**

The Office of Administration delegated the authority to issue travel regulations to state directors and to prescribe what are reasonable and necessary travel expenses as they relate to meals. This resulted in the departments and their divisions issuing numerous travel regulations, which limit some state employees to only claim \$14 a day for meal expenses, while other state employees can claim up to \$72 a day, or five times more than the lowest allowed. Accordingly, audit tests showed that while some employees can only spend a total of \$14 a day for breakfast, lunch and dinner, employees in another department have claimed up to \$39 for dinner alone.

Meal limits  
range from  
\$14 to \$72

According to meal allowance guides issued by the federal government and a commercial firm, several state departments have set meal allowances either well below or well above average costs for Missouri cities. For example, current federal daily meal rates for Missouri cities are \$46, \$42, and \$34 for St. Louis, Kansas City, and Branson respectively; and \$30 for all other Missouri cities.<sup>6</sup> Employees for one Department of Mental Health division, however, can claim up to \$14 a day while Office of Administration employees can claim up to \$72 in St. Louis, and up to \$63 in all other Missouri cities. Table 2.1 shows meal allowance rates for each department.

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<sup>4</sup> The term “division” for the purpose of this report refers to all divisions, subdivisions, commissions, facilities, or subordinate site locations within a state department.

<sup>6</sup> The federal rates are based on triennial surveys of menu prices at two- and three-star restaurants.

**Table 2.1: Meal Limits by Department**

Department	Meal Reimbursement – In State			
	Maximum <sup>1</sup>	Breakfast	Lunch	Dinner
<b>Agriculture</b>	\$18	\$4	\$5	\$9
<b>Conservation</b>	No limit	--	--	--
<b>Corrections</b>	\$50	--	--	--
<b>Economic Development</b>	\$72	--	--	--
<b>Elementary and Secondary Ed.</b>	\$72	--	--	--
<b>Health</b>	\$72	--	--	--
<b>Higher Education</b>	No limit	--	--	--
<b>Insurance</b>	\$46	--	--	--
<b>Labor and Industrial Relations</b>	\$50	\$12	\$12	\$26
<b>Mental Health</b>	\$14-\$26	--	--	--
<b>Natural Resources</b>	\$72	--	--	--
<b>Office of Administration</b>	\$72	--	--	--
<b>Public Safety</b>	\$72	--	--	--
<b>Revenue</b>	\$42.55	\$9.20	\$10.35	\$23
<b>Social Services</b>	\$22.50	\$4.60	\$6.90	\$11
<b>Transportation</b>	No limit	--	--	--

Note: <sup>1</sup>State employees are reimbursed for actual costs up to the amounts shown in the table, but lesser amounts may apply depending on the destination.

Source: Department’s responses to auditor questionnaire

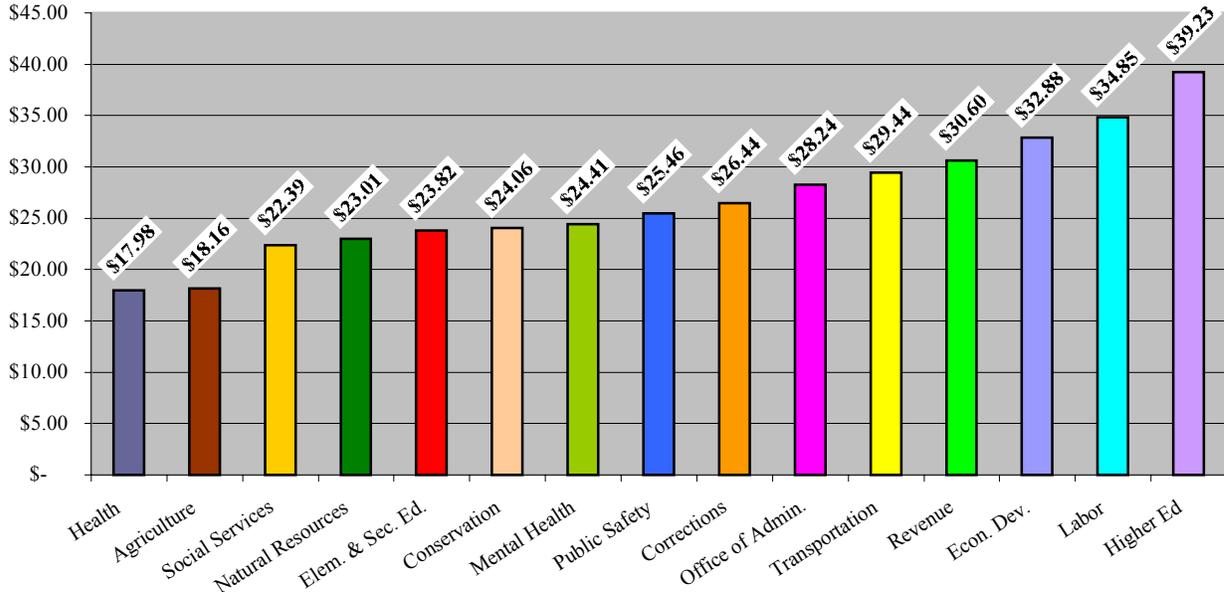
The above allowance rates represent daily limits based on actual expenditures incurred and not daily entitlements. Federal meal allowance rates are basically entitlement rates, because federal employees can claim these amounts even though their actual expenditures may have been less.

**Employees in most departments are not claiming the maximum meal expense allowances**

Audit tests showed that employees working for departments, whose meal allowances were less than \$30 a day, on the average claimed up to the maximum amount allowed by their departments. For example, Social Services Department employees, whose daily limit was \$23, claimed an average of \$22. Audit tests also showed that employees working for 9 of the 13 departments with no set limits, or limits above \$30, on the average claimed less than \$30 a day. For example, Conservation Department employees, who had no set limit, claimed an average of \$25 a day. However, Departments of Economic Development and Labor claimed an average of \$33 and \$34 a day, respectively.

Meal claims average less than \$30 a day

**Chart 2.2: Ranges of Average Daily Meal Spending by Department  
June 2000**



Source: Auditor analysis of the departments' June 2000 expense reports

**Use of commercial firm's high rates has resulted in higher meal costs and duplicative administrative expenses**

Six state departments, including the Office of Administration, use meal allowance rates published by a commercial firm, which has resulted in higher costs for meals being claimed in comparison to other departments' meal expenses. The commercial firm's meal rates include a low, average and high rate for breakfast, lunch and dinner. Each department that uses the commercial firm rates has allowed their employees to claim up to the high rate for meal reimbursements. For example, an employee from one department claimed dinner reimbursement of \$38.68 and \$39.27 in St. Louis during the month of May 2001. Another employee from this department claimed \$38 for dinner in St. Louis in January 2001. The maximum commercial dinner rate published by the commercial firm for St. Louis is \$42.85. Employees with this same department claimed dinners ranging from \$30.26 to \$32.43 for the months of January to May 2001 in Kansas City, which the commercial firm lists a maximum high of \$35.30. These are over twice the amount (\$14) that can be claimed by some Department of Mental Health employees for breakfast, lunch and dinner, combined.

The commercial firm's guide is only available by paid subscription. Five of the six departments using the commercial firm meal guide pay for their own separate subscriptions. The departments are paying the commercial firm up to \$950 annually to obtain the meal rates. The Department of Health pays an annual \$570 subscription cost to the commercial firm and an additional \$95 per quarter for updates. The Department of Economic Development is paying \$596 per year to subscribe to this commercial firm, and also pays an additional \$30 per city to have rates for Springfield and Jefferson City researched on a quarterly basis. The Department of Public Safety stated they purchased the firm's guide in fiscal year 2001, however, in fiscal year 2002 they will probably rely on the Office of Administration's subscription because the cost of the subscription was too expensive.

Five departments paid for same information separately

**Multiple travel policies to supplement the state travel regulation have resulted in duplication of effort and lack of control over travel costs**

Information provided by the departments and their divisions show they have issued 60 separate travel policies to supplement the state travel regulations. Each department has different procedures for processing expense reports before forwarding them to the Office of Administration for payment. Several departments allow each division to enforce its own policy without review by the department's central office. This decentralization has resulted in (1) an excessive number of employees involved in reviewing and approving travel expense reports, and (2) the departments losing oversight over their divisions' travel expenditures. Table 2.3 shows the number of travel policies the departments and their divisions have issued within the executive branch.

Sixty policies supplement state travel regulations

**Table 2.3: Total Number of Policies by Department**

	<b>Number of Division Policies</b>
Mental Health	29
Economic Development	10
Public Safety	7
Corrections	3
Agriculture	1
Conservation	1
Health	1
Office of Administration	1
Insurance	1
Labor & Industrial Relations	1
Natural Resources	1
Revenue	1
Social Services	1
Transportation	1
Elementary & Secondary Ed.	1
Higher Education	0
<b>Totals</b>	<b>60</b>

Source: Travel policy survey responses

Decentralization has resulted in significant inefficiencies related to reviewing and processing travel expense reports. For example, within the Department of Mental Health and its divisions, which have 29 separate travel policies, 70 employees are involved in reviewing and processing expense reports. Also, the Department of Economic Development, which has 10 separate travel policies, has 20 employees to review and process expense reports. The Department of Social Services, which only has one travel policy for all divisions and sections, has six employees to review and process expense reports. The Department of Social Services processed more than three times the number of expense reports in fiscal year 2000 than did either the Departments of Mental Health or Economic Development.

As a result of multiple policies and fiscal officers, some departments have lost effective oversight of employees' travel expenses. For example, the Department of Mental Health's central office officials do not review division expense reports prior to forwarding them to the Office of Administration. Such a review would have disclosed that two employees drove separately to Geneva, Wisconsin instead of using airlines, or pairing up to ride together. On another trip, two employees from the same Department of Mental Health division went to Chicago. One employee used commercial airfare to Chicago, but the second employee drove her personal vehicle. The second employee's expense report did not include an analysis to show it was less costly for her to drive than to use commercial airfare to Chicago.

State travel regulations inconsistently enforced

## **Conclusions**

Decentralizing the authority to amend state travel regulations to each department has resulted in many employees not receiving adequate meal reimbursement, while other employees receive excessive meal reimbursement. Decentralization has also resulted in duplication of effort in reviewing and processing travel expense reports and loss of effective oversight of state travel costs.

## **Recommendations**

We recommend the Commissioner, Office of Administration:

- 2.1 Amend state travel regulations to establish standard statewide meal allowance rates, taking into consideration the need for higher rates in larger metropolitan areas.
- 2.2 Direct department directors to establish only one department-wide travel regulation and suspend regulations that have been issued by individual divisions.

## **Office of Administration Comments**

*The Office of Administration will convene an interagency work group to review current regulations and practices. Based on the recommendations of the work group, the Commissioner will issue appropriate policies and regulations regarding state travel.*

*The work group is currently being formed; all 16 state executive departments have been asked to designate someone to serve on the group. The group will begin its task by reviewing the audit findings and current agency travel practices.*

### **3. Departments' Questionable Meal Reimbursement Practices Substantially Increase State Travel Costs and Represent a Federal Tax Liability**

State departments are reimbursing their employees for noontime meals for travel that does not involve travel overnight and/or outside their official domicile. According to Internal Revenue Service Publication 463, Travel, Entertainment, Gift, and Car Expenses, the cost of business meals that did not involve overnight travel or travel long enough for the employees to stop for sleep or rest to properly perform their duties is a personal expense and, therefore, is not deductible as a business expense.<sup>7</sup> Also, if employers reimburse employees for these business meals, federal regulations require employers to report the amount reimbursed as taxable income to the employees. State department officials stated they had not reported these reimbursements as taxable income because they were not aware of the federal requirements. Additional Social Security and Medicare taxes will have to be paid by the state if the departments continue to reimburse employees for these types of meals and report these amounts as taxable income. Eliminating the reimbursement for noontime meals for travel that does not require overnight stay could save the state an estimated \$1.8 million.

#### **State travel regulations allow meal reimbursements without overnight travel**

State travel regulations (1 CSR 10-11.010), rule (3) states “officials and employees will be allowed travel expenses when required to travel away from their official domicile on state business. In instances where employees incur breakfast or evening meals when leaving and returning to their official domicile, they should indicate on their expense report that an early departure or late arrival was required to conduct state business.” This rule does not state whether noontime meals are reimbursable when employees leave and return to their official domicile, without incurring overnight travel.

State travel regulations rule (10) states “in certain situations (as in the metropolitan areas of Kansas City, St. Joseph, St. Louis, and Springfield) where it is clearly economical or advantageous to the state, the Office of Administration may authorize reimbursement for meals for employees traveling on state business in the area, regardless of the location of their official domicile. Generally, this will include the noon meal only. This shall apply only to employees who by the nature of their jobs are required to travel and are reimbursed while on state business in their official domicile.” Audit tests show the departments have interpreted this rule to allow employees to be reimbursed for noontime meals while out of the office for official business during the noontime hours, even if they are away less than 2 hours.

Reimbursing employees for meals, which did not involve overnight travel, are not a common practice by other states. Seven of the eight states contiguous to Missouri do not reimburse their employees for noontime meals unless the employees are in overnight travel status. Additionally, federal travel regulations do not authorize reimbursement for meals, unless an employee is in travel status 12 hours or longer.

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<sup>7</sup> According to an IRS publication, the rest requirement is not satisfied by merely napping in a car or stopping an hour to eat lunch.

### Costs for noontime meals are substantial

Audit tests of the departments' June 2000 expense reports showed all departments reimbursed employees for noontime meals that did not involve overnight travel. Specifically, sample audit tests showed the departments reimbursed 447 employees for 4,278 noontime meals costing \$22,774. Although the expense reports did not show the number of hours the employees were in travel status during these "day trips," the fact that the employees did not claim reimbursement for breakfast or dinner indicates they were in travel status less than 12 hours. Two departments' travel regulations authorize reimbursement for noontime meals even if their employees are out of their office for only 2 hours. For example, the Department of Social Services' travel policy states an employee leaving his/her office before 11:30 a.m. and returning after 1 p.m. is entitled to reimbursement for his/her noontime meal. Table 3.1 shows (1) totals for all meals reimbursed by each department, (2) the amount of the total that was for noontime meals only (employees did not claim breakfast or dinner), and (3) the percentage of noontime meals to the total amount.

Numerous employees reimbursed for noon meals

**Table 3.1: Day Trip Meal Expenditures from Audit Test**

Department	Total Meals	Total Noon Meals for Day Trips	Percentage Reimbursed for Noon Meals
Agriculture	\$3,223	\$1,911	59
Natural Resources	\$5,999	\$2,115	35
Conservation	\$16,760	\$5,774	34
Corrections	\$5,433	\$1,640	30
Revenue	\$3,014	\$800	27
Health	\$3,122	\$815	26
Public Safety	\$9,131	\$2,031	22
Higher Education	\$889	\$165	19
Economic Development	\$8,483	\$1,550	18
Mental Health	\$3,223	\$567	18
Social Services	\$19,006	\$3,422	18
Labor and Industrial Relations	\$5,149	\$890	17
Insurance	\$573	\$82	14
Transportation	\$7,326	\$695	9
Elementary & Secondary Education	\$2,323	\$179	8
Office of Administration	\$1,638	\$138	8
<b>Totals</b>	<b>\$95,293</b>	<b>\$22,774</b>	<b>24</b>

Source: Auditor analysis of departments' June 2000 expense reports

An estimated \$1.8 million was reimbursed for noontime meals received during day trips, which the departments should have reported as taxable income to their employees. This estimate was based on total fiscal year 2000 meal expenditures of \$7.4 million and audit tests that showed noontime meal reimbursements were 24 percent of the total meal expenditures.<sup>8</sup> Since the audit tests did not include a review of expense reports less than \$50, the percent of total meal reimbursements for only noontime meals could be higher.

### **Reporting meal reimbursement for day trips as taxable income will result in additional state costs**

The state will be responsible for contributing Social Security and Medicare taxes, or 7.65 percent on the amounts reimbursed, if the departments continue to reimburse employees for noontime meals that did not involve overnight travel or travel long enough for the employees to stop for sleep or rest. Based on the \$1.8 million estimate of day trip meal reimbursements for fiscal year 2000, the state would have paid an additional \$120,142 in Social Security and Medicare taxes. In addition to increased federal tax liability, the departments will have to develop and/or modify existing manual and automated systems to track and report the costs of meals that are subject to federal taxes.

### **Conclusions**

State travel regulations authorize state employees to be reimbursed for noontime meals while out of their offices, even though they were not required to travel overnight or long enough to require rest. Audit tests indicate the costs to reimburse state employees for meals while the employees were away from their offices for 12 hours or less was an estimated \$1.8 million. According to federal regulations, these reimbursements did not represent legitimate business expenses and should have been reported as taxable income to the employees. Accordingly, the state would have been liable for Social Security and Medicare taxes on the \$1.8 million. Given the issues identified, the Office of Administration needs to consider at least two options: prohibiting reimbursement for noontime meals for short day trips; or ensuring agencies properly report such reimbursements for tax reporting purposes.

### **Recommendations**

We recommend the Commissioner, Office of Administration:

- 3.1 Clarify state travel regulations to specify situations when noontime meals are or are not reimbursable, such as employees must be traveling at least 12 hours.
- 3.2 Notify department directors of the Internal Revenue Service's requirement to track and report these reimbursements as taxable income to employees if the Office of

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<sup>8</sup> This \$7.4 million estimate came from the state centralized accounting system, SAMII. This number is based on object code 2109 for in-state meals and only included expense reports for state employees.

Administration continues to authorize the payment of noontime meals for travel that does not involve an overnight stay.

**Office of Administration Comments**

*The Office of Administration will convene an interagency work group to review current regulations and practices. Based on the recommendations of the work group, the Commissioner will issue appropriate policies and regulations regarding state travel.*

*The work group is currently being formed; all 16 state executive departments have been asked to designate someone to serve on the group. The group will begin its task by reviewing the audit findings and current agency travel practices.*

**OBJECTIVE, SCOPE AND METHODOLOGY**

**Objectives**

Our objectives were to determine if state travel regulations (1) provided cost-effective control over the purchase and use of commercial airline tickets, and (2) were consistently implemented by the executive branch departments in controlling the costs of employees' travel when conducting state business.

**Scope and Methodology**

To accomplish the audit objectives we:

- Reviewed travel expense cost data for the 16 departments of the executive branch for the period July 1, 1999, through June 30, 2000, (state fiscal year 2000). The 16 departments of the executive branch are: Agriculture, Conservation, Corrections, Economic Development, Elementary and Secondary Education, Health; Higher Education, Insurance, Labor and Industrial Relations, Mental Health, Transportation, Natural Resources, Office of Administration, Public Safety, Revenue, and Social Services.

Because most airline tickets are direct billed to the departments, they were not disclosed on employee travel expense reports. As such, we were unable to obtain detailed information on individual airline tickets during our audit period such as date of travel, airline used and the actual cost of the tickets purchased. Even if airline tickets had been available, it would not be possible to determine if another flight would have been more economical, because airline fares change rapidly and it is not possible to know the circumstances in which an airline ticket was booked.

- Obtained completed questionnaires from each of the executive branch departments, containing information regarding their travel regulations, policies, and procedures, and the extent of employee official travel.
- Reviewed the departments' and their divisions' travel regulations.
- Interviewed officials from three Jefferson City travel agencies that book airline reservations for state departments to obtain information regarding airline travel.
- Interviewed officials from the departments of Conservation, Economic Development, Labor and Industrial Relations, Mental Health, Office of Administration, and Social Services to determine how their travel regulations and policies are enforced and expense reports processed.
- Reviewed travel policies and regulations for Missouri's eight contiguous states: Iowa, Illinois, Kentucky, Tennessee, Arkansas, Oklahoma, Kansas and Nebraska, and federal travel policies and regulations as they relate to meals, lodging, air travel, and overnight stay requirements.

## APPENDIX I

- Obtained information on daily meal allowance rates that are published by a commercial company and the federal government.
- Reviewed the Office of Administration Travel Regulations (amended August 30, 1996) to determine whether state travel policies and regulations provided effective guidance and control.
- Reviewed applicable federal regulations and U.S. Internal Revenue Service codes and publications regarding meal reimbursements, which qualify as business expenses.
- Obtained an audit sample of expense reports to review for executive branch departments from the state's centralized accounting system.
- Identified all expense reports totaling \$50 or more, excluding mileage reimbursements that were processed during June 2000.<sup>9</sup>
- Reviewed over 20 percent of the expense reports meeting this requirement from each department to obtain information regarding meals, lodging, air travel and miscellaneous expenses. Table I.1 depicts the number of expense reports meeting the audit test requirements and the number reviewed by our office.

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<sup>9</sup> Mileage was not reviewed during this audit because it is a set by state statute for all departments at .03 below the federal reimbursement rate.

**Table I.1: Audit Test for Expense Reports**

<b>Department</b>	<b>Expense Reports Over \$50</b>	<b>Audit test</b>
Social Services	882	185
Conservation	594	133
Public Safety	409	122
Economic Development	401	123
Department of Transportation	386	91
Natural Resources	336	98
Corrections	288	65
Mental Health	282	71
Health	271	77
Elementary & Secondary Education.	193	73
Revenue	170	55
Labor	145	61
Agriculture	131	45
OA	98	33
Insurance	55	27
Higher Education	13	8

Source: State centralized accounting system data for June 2000

<sup>10</sup> Mileage was not reviewed during this audit because it is a set by state statute for all departments at .03 below the federal reimbursement rate.

**STATUTES AND CODE OF REGULATIONS**

**State Statutes and Regulations**

State Statute, Section 33.090, RSMo 2000, empowers the Office of Administration to promulgate rules and regulations governing incurring and paying reasonable and necessary travel and subsistence expenses actually incurred on behalf of the state.

To implement the above statute, the Office of Administration issued state regulation (1 CSR 10-11.010), which establishes guidance for all public officials and employees of the State of Missouri who travel on official business for the state. The regulation contains 20 rules, including the following:

- Rule 3 states: “Officials and employees will be allowed travel expenses when required to travel away from their official domicile on state business. Employees should indicate on their expense report that an early departure or late arrival was required to conduct state business in order to claim breakfast or evening meals when leaving or returning to their official domicile. Mileage reimbursement for official use of a private motor vehicle may be claimed within the official domicile.”
- Rule 5 states: “Employees and officials are expected to exercise the same care in incurring expenses as a prudent person would exercise if traveling on personal business. Meal and hotel expenses shall be in reasonable relationship to their average cost for the cities where the expenses are incurred. Hotel expenses shall be at the single rate and air travel is limited to no more than coach fare. The make/model of rental vehicles should be reasonable in relation to their business need.”
- Rule 10 states: “In certain situations (as in the metropolitan areas of Kansas City, St. Joseph, St. Louis, and Springfield) where it is clearly economical or advantageous to the state, the Office of Administration may authorize reimbursement for meals for employees traveling on state business in the area, regardless of the location of their official domicile. Generally, this will include the noon meal only. This shall apply only to employees who by the nature of their jobs are required to travel and are reimbursed while on state business in their official domicile.”
- Rule 15 states: “No official or employee shall be allowed hotel or meals while in their city of official domicile, except as provided in section (10) [(travel rule) (10)] and this section (15) [(travel rule) (15)]. While traveling on state business, employees and officials will not be allowed hotel expenses when it would be advantageous to the state to return to their residence. Reimbursement or direct billing may be made for agency-provided meal expenses within the city of official domicile when it is incurred as part of a department or agency required meeting or department sponsored conference. This represents meals served to officers and employees at conferences and meetings who are interacting and conducting state business during the meal period.”

## APPENDIX II

- Rule 18 states: “state department directors are authorized to promulgate and enforce regulations governing travel. Departmental regulations may be more restrictive than these [state] regulations. Departmental regulations shall not grant expenses that are not allowed under the State of Missouri Travel Regulations.”

### **Federal Regulations and Rules**

The United States Internal Revenue Code of 1954, 26 U.S.C. 162 (a) (2) (1958 ed.) allows individuals to claim a deduction for traveling expenses including meals and lodging while “away from home” in pursuit of a trade or business. Internal Revenue Service Publication 463, Travel, Entertainment, Gift, and Car Expenses, states: “You are traveling away from home if 1) Your duties require you to be away from the general area of your tax home (defined later) substantially longer than an ordinary day’s work, and 2) You need to get sleep or rest to meet the demands of your work while away from home.” According to the publication, the rest requirement is not met by merely napping in your car or stopping an hour for lunch. U.S. Code of Federal Regulations (26 CFR 1.62-2) requires that if employers reimburse employees for meals when the employees did not meet the “away from home” requirement, the employers must report the non-away from home reimbursements as wages or other compensation on the employees’ Form W-2, and the amount is subject to withholding and payment of employment taxes, such as Social Security and Medicare taxes.